



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** James R. Helmer  
Robert L. Davis  
Ralph G. Tonseth

**SUBJECT: TAXICAB SERVICE MODEL STUDY      DATE: 04-27-04**

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Approved

Date

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**COUNCIL DISTRICT: Citywide**

## **RECOMMENDATION**

Proceed with implementation of the proposed Taxicab Service Model with an implementation date of February 1, 2005. Authorize the City Manager to execute an extension to the Airport Taxicab Concession Agreements with Yellow Checker Cab Company, Inc. and United Taxicab Corporation that expire on September 27, 2004 until January 31, 2005 to provide adequate time to effectively implement the proposed Taxicab Service Model after the busy holiday period.

## **BACKGROUND**

The purpose of this memorandum is to provide information to the City Council as directed by the Building Better Transportation Committee (BBT) at its April 5, 2004 meeting. The Committee approved staff's recommendation, as outlined in the March 29 memorandum attached to this report, and directed the following for consideration by the City Council:

1. Reserve the right to declare a cap on the number of Citywide taxicab permits. Specific future date(s) should be set to review the need for a cap. In the event there is a perceived need for a cap, declaration of a cap would be based upon an analysis of relevant factors, worsening market conditions, and industry data; and could be set by the Director of Transportation.
2. Direct staff to report back to the Building Better Transportation Committee after the proposed system has been in effect for six months to determine how effectively it is working, and if the system is working as expected, to consider making the proposed Airport driver permits transferable.
3. Direct staff to provide additional justification and detail on why 300 alternate day Airport permits have been recommended. Staff was further directed to justify the ratio of allocation of permits between drivers and owners.

## **ANALYSIS**

### **1. Analysis of a Cap on Citywide Taxicab Permits**

The goal of a cap on the number of permitted taxicabs in the City would be to address a perceived oversupply of taxicabs. This information responds to the BBT Committee's request on what factors should be considered, and how might the setting of a cap occur, in the event the City Council determined that to be the best course of action for the taxi industry.

Setting and maintaining a cap must adequately address two issues. First, are the factors to be used in the analysis that would lead to setting a cap. Second, is the on-going administration of a cap and the process to be used to issue additional permits when demand for taxicab service increases beyond the industry's capacity to meet it.

#### **Relevant Factors for Setting a Cap**

If the Director of Transportation is to be delegated authority to administratively set a cap on the number of taxicabs, the determination should be based on an analysis of the following factors:

- ☐ Trip volumes (both airport and non-airport trips) and market demand
- ☐ Customer response times and customer satisfaction
- ☐ Number of cabs and utilization rate
- ☐ Number of drivers (full-time, part-time and not working)
- ☐ Driver productivity and driver income
- ☐ Rate of (customer) fares
- ☐ Gate fees charged to drivers by companies
- ☐ Company marketing and promotion
- ☐ Driver movement between companies

Based on these factors, the Director could assess whether market conditions have been improving under the new system. If the Director determined that market conditions were improving, no cap would need to be considered. If it is determined that market conditions were not improving, the Director would then be authorized to begin the process of making a determination to set a cap. If the City Council were to authorize the Director to declare a cap, objective criteria would need to be used to ensure a fair and defensible process in the setting of a cap, requiring further consultation with the City Attorney's Office. Any initial review on the need to declare a cap should be at least one year after the new system is in place to provide the time to fully understand the impacts of the new system, and to avoid a premature conclusion.

#### **Administration and Adjustment of a Cap**

Were a cap to be instituted, there would necessarily be periodic (annual or every other year) reviews of whether the number of authorized taxicabs were sufficient to meet customer demand.

The review should be conducted at the request of taxicab companies, drivers, taxicab users (including residents and the business community) and the relevant Departments of the Transportation CSA (e.g. Airport, Police, and Transportation).

Given the costs that would be created by a review process if a cap were set, it is recommended that a fee be charged to each taxicab company, based on the number of taxicabs in use at the company, including affiliated cabs, and on each permitted driver on a cost recovery basis. Companies and drivers would share the cost of the review. For example, if the total cost of a review was \$60,000, and there were 480 taxicabs and 480 permitted drivers, the cost would be \$61 per cab, including affiliated cabs (paid by companies) and \$61 per driver (paid by drivers).

### **Citywide or Company Specific Caps**

A key consideration in setting and administering a cap concerns whether the cap applies to the industry as a whole or to individual companies. Generally, other jurisdictions have set their caps citywide. The advantages of the citywide approach are its simplicity and uniformity.

The disadvantage is that a citywide cap is unfair to cab companies that are not the source of the oversupply of cabs. While some companies may have an oversupply of cabs relative to dispatch calls, other companies may appropriately balance supply and demand. These latter companies most likely have effectively marketed and promoted their services and thus increased dispatch calls, trips per driver, driver productivity and driver income. It would be unfair and counterproductive to cap the ability of these companies to grow – and their incentive to improve their operations – due to problems at certain companies. Thus, in order to maintain the new system's incentives for companies to market, promote and attract new customers, if the City Council determines a cap to be an appropriate regulatory tool for the City to use, it is suggested that it be considered on a company-specific basis rather than industry-wide.

An additional consideration in administering a cap concerns the start-up of new companies. A key element in the proposed service model is allowing new companies to enter the market and compete with existing cab companies. San Jose has seen one new company enter the market in recent years and compete effectively and build its business and reputation. In order to maintain this key feature of the recommended service model, it is recommended that new companies be allowed to enter the market, even in the event that a cap is instituted, if they show a market need, a credible business plan to meet the market need, and have a commitment from 5 or more drivers (15 after the 2-year transition period) to be affiliated with the company within a designated period of time.

### **Experience in Other Jurisdictions with Caps**

The experience of three jurisdictions illustrates alternative ways that periodic reviews on the number of authorized taxicabs are conducted.

**San Francisco** – The San Francisco Taxicab Commission conducts an annual review of the number of taxicabs in the city/county. The review this year will include a mail survey of taxi

users, test calls to cab companies to measure dispatch response times, and observations of taxi availability for flag downs on Downtown streets and at hotel taxi stands. The Taxi Commission will publish the results and hold a hearing. If the Taxi Commission votes to issue additional medallions, the City Controller conducts an analysis of the financial impact on the industry and recommends to the Board of Supervisors whether fares and gate fee caps should be adjusted. The cost to the Taxi Commission including consultant and staff time is projected to be \$50,000 to \$60,000. The cost for the City Controller to complete their portion of this analysis was not available and the results of the analysis are typically limited in terms of the depth of analysis.

**Denver** – Taxicabs in Colorado are regulated by the Colorado Public Utilities Commission. Reviews of the number of taxicabs are conducted in response to applications for operating authority from existing or new taxi companies. Applicants must prove the need for additional cabs; companies typically attempt to do so through letters of support from the public and hotels and the testimony of witnesses (consumers and/or experts). Administrative law judges conduct the hearings and make a recommendation to the PUC based on the hearing record. PUC staff have not conducted independent studies. Costs are the time of judges and court reporters; no cost estimate is available.

**Las Vegas** – The Nevada Taxicab Authority, which regulates taxicabs in Las Vegas, collects detailed statistics on trips, revenues, average fares and shifts worked from each of the 16 cab companies on a monthly basis. In 1996, the Taxicab Authority adopted a formula for issuance of additional taxicab medallion licenses based on the number of taxi trips. Additional medallions are issued based on increases in the number of trips. Taxicab Authority staff conduct analyses of the industry data and report to the Taxicab Authority Board, which makes the final decision after hearing testimony from companies, drivers and other interested parties. The Taxicab Authority has regularly issued new medallions, most recently a May 2003 allocation of three medallions per company. An estimate of costs of the analyses and reviews is not available.

### **Challenges with the Use of Caps, Particularly on the Citywide Market**

A cap on the number of taxicabs on a Citywide basis is not part of the recommended service model for the following reasons:

- ❑ Caps reduce incentives to expand markets and improve customer response times
- ❑ The inherently difficult and imprecise nature of the analysis used to determine caps
- ❑ Caps increase regulatory burden and costs created by administering and reviewing cap levels.

**Caps Reduce Incentives to Expand the Market** – A primary goal of the recommended service model is to create incentives for cab companies to market their services and increase trip volumes for drivers. Caps undercut incentives for companies to improve and market their services, since they are prohibited from expanding in size as warranted by increased demand. Comparisons with other cities indicate that the demand for cab service in San Jose is partially depressed by high fares and slow response times, and capping the market will not improve this situation. San Jose's taxicab fare is among the highest fares in the nation, and in fact has the highest rate of the 13 largest taxicab markets in the US. In addition, in terms of customer

satisfaction with wait times, it is one of the lowest rated aspects of service in this industry, with 35% of Downtown businesses rating response times as poor. When compared to San Diego, Seattle, Fairfax County VA, and Montgomery County MD, the average number of daily dispatched trips per 100,000 population is significantly lower in San Jose. It should also be kept in mind that San Jose has a number of factors that make future growth an expected reality including: the Airport Masterplan, the City's Economic Development Strategy, future developments in Downtown, and new and updated regional malls.

**Setting Caps is Difficult and Imprecise Work** – Caps require a difficult and imprecise evaluation of the number of cabs necessary to serve current demand. The optimal balance between the number of cabs and trip volumes is affected by numerous factors including the efficiency of dispatch procedures and geographic and time-of-day variations in demand. Setting the number of Airport permits has required extensive analysis; the task of setting a Citywide cap is several orders of magnitude more difficult, and must take into account that San Jose's cabs are also the primary fleets that serve the many of the other cities in Santa Clara County.

The Airport has fairly precise taxicab data, by time of day and day of week. The Taxicab Advisory Team (TAT) extensively analyzed and debated what the appropriate number of cabs at the Airport should be. After two months of debate, the TAT could not agree on the appropriate number. The current Airport companies thought that 350 alternate day permits were needed to adequately serve Airport customers. Drivers were of the opinion that 240 could adequately meet customer needs. Staff determined that 300 permits (60 of which are proposed on a provisional basis until actual experience is obtained) would be the appropriate number to meet customer needs and ensure productive Airport days for drivers. Attempting to establish a similar number for the City given all the variables would be a difficult and costly exercise.

**Regulatory Burden and Cost of Setting Caps is High** – Capping the number of taxicabs will likely end up resulting in the City regulating other economic aspects of the taxicab industry, principally the gate fees that cab companies charge drivers. San Francisco, Chicago and New York have all found it necessary to regulate gate fees as well as the number of cabs, when the goal attempting to be achieved is higher driver incomes. The results from each of these cities, in terms of impact on driver income, have been mixed.

Finally, the level of regulation incurred by caps and possibly gate fee regulation is costly and burdensome. Currently, San Jose has a \$750,000 shortfall in cost recovery for taxicab regulation. Staff is proposing to implement a new service model, with improved regulatory oversight, all within existing staffing levels. Given the overall budget shortfall the City is attempting to balance by June 30<sup>th</sup>, proposing the addition of staff to regulate an industry that is well short of cost recovery seemed counterproductive. Analysis of caps cannot be undertaken without additional staff or consultant resources, and fees on the industry. But if fees are to be raised, they should first be allocated toward reducing the City's current shortfall between regulatory costs and fee revenue, and not on adding new regulatory activities.

## **2. Transferability of Airport Driver Permits**

The BBT Committee recommended consideration of transferability of Airport permits only after an evaluation of the effectiveness of the new system after six months. Making Airport driver permits transferable would be a major step toward making the proposed taxicab service model permanent, since drivers would have a very strong stake in maintaining the new status quo.

Evaluation of the new system should consider how it is working both at the Airport and Citywide. A major objective of the alternate day rotation system and allocation of company Airport permits based on City trip volumes is to improve service for the City (non-airport) market. Thus, prior to considering transferability, the new system should be shown to be effective in both providing the desired level of service at the Airport, and in improving dispatch response times and service quality for non-Airport trips. There will be continuous monitoring of the new system, yet a final determination of the overall effectiveness of the new system cannot be made quickly. The proposed system includes a 2-year transition period, and that period of time and possibly an additional year are needed before the long-term success of the new system can be fully determined. Staff does suggest that the BBT Committee receive a formal status report one year into the implementation of the new system.

### **Concerns with Transferability of Airport Driver Permits**

Transferability of Airport driver permits is not part of the recommended service model due to the counterproductive impacts of transferability on driver incomes beyond an initial, potential windfall for the group of current drivers that would receive permits in the initial allocation; and due to the constraints that transferability would create for further adaptation of the taxi service model to changing City needs.

Fundamentally, transferability means that certain drivers receiving permits benefit at the possible expense of existing drivers that do not get a permit in the initial allocation and future generations of drivers. A major issue in the current study has been driver incomes; a major feature of the recommended service model is to control the number of cabs serving the Airport as a way to improve driver productivity and driver incomes. Drivers are hoping that these controls will translate into a value to their Airport permits. If this develops, drivers holding Airport permits could sell the permits to other drivers and thus profit from having held the permits.

While desirable from the perspective of the drivers who are issued Airport permits initially, the effect would be to reduce the incomes of drivers that want to work the Airport in the future. Existing drivers not receiving permits in the initial allocation, and future drivers, would have to make an upfront payment to gain access to the Airport through a driver permit. The payments would come from personal savings or loans. If loans are not available, the need for building up personal savings poses a barrier to entry for future drivers. If loans are available, payment on the loans then reduces the net income of those drivers making loan payments – potentially quite substantially, as seen in New York, Chicago, Boston and other major medallion cities.

In effect, permit transferability may result in the City facing the same problems with driver incomes that the proposed service model is designed to address. The new service model would thus be a short-term “fix” without lasting impact on the incomes of drivers who serve the Airport, exactly the opposite of the intended result.

Transferability also is likely to create obstacles to modifying the regulatory system to meet unforeseeable changing circumstances. The value of permits from transferability creates very strong incentives for permit holders to resist changes to the system, however beneficial they might be. It is notable that in major medallion cities, taxi drivers and owners resisted increasing the number of taxicabs for decades on the fear that an increase would hurt medallion values. In fact, however, medallion values and the position of the industry were in fact strengthened by the issuance of additional medallions because customers could be better served, industry market share increased, which in turn translated into increased medallion values.

If the City contemplates making Airport permits transferable, it would be advisable to consider charging a transfer fee as a percentage of the transaction amount. Revenue from the fee would be used to offset the administrative costs involved with the “closing” on the transfer, which typically involves paperwork and attorneys, much like the closing of a real estate transaction.

### **3. Number and Ratio of Distribution of Alternate Day Airport Permits**

#### **Number of Airport Permits**

The recommended 300 Airport permits would result in 150 cabs having access to the Airport on each day under the alternate-day system. Of the 300, 60 are proposed as provisional to ensure that oversupply does not occur, and so adjustments can be made in a timely way if needed. This figure was derived from an analysis of trip data and taxicab supply information.

The two primary considerations in setting the number of Airport permits are: (1) ensuring sufficient supply of cabs for customer needs; and (2) ensuring the opportunity for a reasonable number of trips for each driver to achieve improved levels of driver productivity and income.

In order to ensure customers are well served, the analysis of Airport trip data focused on peak demand periods. It might seem that providing sufficient numbers of cabs during the peak would mean that during non-peak periods there would be an oversupply of cabs. This is not necessarily the case. Our experience in San Jose and at other Airports around the US shows that a large percentage of cabs that can work Airports during peak times will do so, and the number of cabs typically declines at off-peak times. During off-peak times some drivers will make non-Airport pickups and some drivers will not work – the Airport is active 18 hours a day while drivers should work no more than 12 hours a day, per the vehicle code.

Overall, under the proposed service model the number of Airport trips is expected to increase from the current 4.5 trips per cab working the Airport per day to 7.6 trips per cab working the Airport per day under the proposed alternate day system. This is a substantial increase in driver productivity, and would make our Airport driver productivity levels comparable to the airports in

Orange County and Oakland. However, based upon discussions with Oakland Airport, customer waits for cabs do occur during peak periods at Oakland Airport. Our Airport staff will ensure that cab availability and customer wait times are monitored closely to ensure customer service remains high. Also, the 7.6 trips represent trips only leaving the Airport. The goal and expectation is that drivers would not exclusively return to the Airport with empty vehicles, and would obtain customers on few trips returning to the Airport to achieve the driver's goal of 10 trips per day.

The analysis focused on known peak demand periods: Sunday evening; Monday, Tuesday and Wednesday mornings; and Wednesday, Thursday and Friday late afternoon and early evenings. Based on initial analysis by Airport staff and the consultant, the peak 5-hour time period on each day was analyzed. With the exception of busiest Sunday evening peak, the next busiest time at the Airport for taxicab dispatching is Monday morning from 8 a.m. to 1 p.m. It is envisioned that the Sunday evening peak will necessitate more than 150 cabs either by giving access to all Airport cabs on Sunday evenings or by having conditional Airport permits that would have access to the Airport at peak times – Sunday evenings and major holidays.

The analysis for determining the number of Airport permits thus focused on the Monday peak period from 8 a.m. to 1 p.m. An average of 453 taxicabs were dispatched on 24 Monday mornings analyzed, with the number of cabs dispatched reaching as high as 525-562 cabs on especially busy Monday mornings, and 585 on one day – October 20, 2003.

Typically a total of about 171 to 205 cabs serve the Monday morning demand. A higher number of drivers are authorized to serve the Airport, but for a variety of reasons they do not work this shift. Although the 171 to 205 cabs appears to be large number, in practice a portion of the cabs pick up only one or two trips from the Airport over this 5-hour period. Some drivers are presumably picking up pre-arranged trips, are at taxi stands, or not actively working (e.g. errands) through out this 5-hour period. On a typical peak Monday, however, two-thirds of the cabs pick up at least 3 trips with these cabs averaging 4 pickups each. It is reasonable to assume that with a reduced number of drivers authorized to pick up each day that each driver will average more than 3 trips in a 5-hour period, and most will make more trips depending upon the length of trips, driver schedules, and other factors (e.g. traffic).

Based on these inputs, our calculations show that 135 actual cabs (150 authorized minus 10% out of service any given day for vacation, sick, mechanical, etc.) will be able to service the same number of trips as is currently serviced on busy Monday mornings, using the trip distribution for four peak Mondays and a minimum of three pickups per cab. Thus, the analysis concluded that 300 Airport permits are the minimum required to meet peak demand periods, using an alternate day scheme and Monday morning as the peak demand period.

### **Ratio of Distribution of Airport permits between Drivers and Companies**

There were two objectives that guided the recommended ratio of driver-held and company-held Airport permits. The first was to allow drivers who primarily serve the Airport currently to continue to do so, by issuing them Airport permits. Based on discussions in the TAT, it was felt

that an Airport-oriented driver averages at least four trips per day (inclusive of all days whether working or not). Analysis of Airport trip data found that 174 vehicles currently average at least four Airport pickups per day. The number of drivers is somewhat lower since some vehicles have multiple drivers. Thus, it was determined that a somewhat lower number of Airport driver permits (167) would be sufficient to ensure that drivers who primarily work the Airport are able to continue to work the Airport. Currently, no drivers have direct access to Airport permits and must go through companies. Under the proposed system, 167 drivers would gain direct access, 56% of all Airport access permits.

The second objective is to issue a sufficient number of Airport permits to companies, based on their volume of non-Airport business, to create a significant incentive for companies to build their non-Airport business. A corollary objective is to provide a sufficient minimum number of Airport permits to each company to provide a basis for them to build their business. Under the proposed system, 133 permits would be distributed to companies (down from the 100% controlled by the two Airport contract companies today), representing 44% of the permits.

Based on these considerations, 167 of the 300 permits should be issued to drivers, and the remaining 133 to companies, with a minimum of at least 7 permits per company.

### **Implementation Schedule and Recommended Concession Contract Extension**

In January 2004, the taxicab concession contracts at Mineta San José International were extended by the City Council to end September 27, 2004. At that time, it was anticipated that the City Council would act upon a proposed taxicab service model in March 2004, giving staff approximately six months lead-time to implement the modifications necessary to begin the new system in October 2004. Considering the extended discussions of the Taxicab Advisory Team regarding the framework of proposed service model, and the lengthy efforts to reach consensus, the City Council is now acting upon the proposed service model in May 2004.

As a result, implementation of the proposed service model, even under an aggressive schedule could not occur before November 2004, six months from an expected action date by the City Council. The six-month timeframe is a minimum implementation period given the elements that must be developed including an RFP for airport taxicab management, company and driver permit distributions, drafting company and driver permit language and executing those agreements, development of industry data collection systems, training, and installation of technology systems.

The heavy holiday travel season, which begins in November, is not the right time to implement a fundamentally new service model. Therefore, it is proposed the start date for the proposed new system occur after the holiday season on February 1, 2005. This will allow staff and the taxicab industry sufficient time to fulfill the requirements of this new system and not negatively impact customers during the busy holiday season.

### **COST IMPLICATIONS**

The City has a \$750,000 shortfall in cost recovery for taxicab regulation. The proposed service model includes a strengthened regulatory role, within existing staffing levels. Given the current budget shortfall the City is attempting to balance by June 30<sup>th</sup>, proposing the addition of staff to regulate an industry that is well short of cost recovery seemed counterproductive. Analysis of taxicab caps, transferability of permits, and other significant regulatory measures cannot be undertaken without additional staff or consultant resources and could be expected to cost the City up to an additional \$100,000 annually.

### **COORDINATION**

This report was developed by the Departments of Transportation, Police, and Airport and coordinated with the City Attorney's Office.

### **CEQA**

Not a project.

James R. Helmer  
Director of Transportation

Robert L. Davis  
Chief of Police

Ralph G. Tonseth  
Director of Aviation

**ATTACHMENT – Original Staff Report to BBT Committee**